

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

May 18, 1999

IN RE:)	
SPECIAL CONTRACT BETWEEN)	
TENNESSEE-AMERICAN WATER COMPANY)	DOCKET NO.: 98-00885
AND THE CATOOSA UTILITY DISTRICT)	

ORDER APPROVING SPECIAL CONTRACT

This matter came before the Tennessee Regulatory Authority (hereafter the "Authority") at a regularly scheduled Authority Conference held on January 19, 1999, for consideration of Tennessee-American Water Company's (hereafter "Tennessee-American") petition for approval of a multi-year contract (hereafter "Special Contract") with Catoosa Utility District¹ (hereafter "Catoosa").

I. BACKGROUND

On October 29, 1997, Tennessee-American filed a petition with the Authority in Docket No. 97-07503 for approval of a Water Purchase Agreement (hereafter the "Agreement") with Catoosa for a six month period from December 1, 1997, through May 31, 1998. Tennessee-American represented that Catoosa desired only a six month initial term to evaluate the benefits of the short-term arrangement prior to entering into a long-term contract. The Agreement was unanimously approved by the Authority during its regularly scheduled Authority Conference held on November 18, 1997.

¹ Tennessee-American is a public utility that owns and operates a water utility system in and around the City of Chattanooga, Tennessee, including certain contiguous Tennessee cities, plus the cities of Rossville and Lookout Mountain, Georgia and areas in the Georgia counties of Dade, Walker and Catoosa. The Catoosa Utility District is located in Catoosa County, Georgia.

On March 19, 1998, under the same Docket No. 97-07503, Tennessee-American petitioned the Authority for a six month extension to the Agreement. The parties represented that an extended trial period was necessary to allow for further testing. In addition, the Agreement, itself, provided for an extension with the intent that a long term contract would be negotiated and agreed upon at a later date. This extension to December 31, 1998, was approved at the Authority's regularly scheduled Authority Conference held on May 5, 1998.

On December 9, 1998, Tennessee-American petitioned the Authority in Docket No. 98-00885 to approve a new multi-year contract with Catoosa. No interested party requested intervention in this matter. This Special Contract, which was negotiated by the parties pursuant to Authority Rule 1220-4-1-07, provides for the sale of water by Tennessee-American to Catoosa at a rate of \$.95 per 1,000 gallons for the first 35 million gallons per month and \$.74 per 1,000 gallons for all usage over 35 million gallons per month. The term of the contract is for a period of ten (10) years, beginning January 1, 1999.

As a part of the Special Contract, Catoosa has agreed to purchase certain minimum amounts of water throughout the contract term. In the first year, the minimum usage amount is 250,000 gallons per day. In the second through the fifth years, the daily minimum is 500,000 gallons and, in the sixth through tenth years, the daily minimum is increased to 750,000 gallons. Under the terms of the contract, Catoosa will remain responsible for payment of the contract amount even if it should fail to take the requisite minimum amounts. This minimum payment responsibility is not required of Tennessee-American's regular customers. The difference between Tennessee-American's revenues realized at the minimum levels of the Special Contract and the regular tariff rates is shown below:

Year	Daily Minimum	Annual Contract Revenues	Annual Tariff Revenues²	Difference³
1	250,000	\$86,688	\$127,822	\$41,134
2-5	500,000	\$173,375	\$216,405	\$43,030
6-10	750,000	\$260,063	\$283,930	\$23,867

The rates approved for the Special Contract are identical to rates that have been approved by the Authority previously between Tennessee-American and the cities of Ft. Oglethorpe, Georgia, in Docket 97-00223, and Signal Mountain, Tennessee, in Docket 97-01305. The rates approved in these contracts represent a “Sale for Resale” category that does not exist under Tennessee-American’s current tariff.⁴ This distinguishes these customers from other Tennessee-American regular tariff customers.

The Authority finds that the totality of the circumstances contained in the record support the approval of Tennessee-American’s petition for approval of the Special Contract. Likewise,

² These calculations are based on the current Tennessee-American tariff rates listed below:

Monthly Usage	Rate
0 - 4 CCF/Month	\$0.1490
4 - 65 CCF	\$2.4360
65 - 500 CCF	\$1.5400
500 - 5,000 CCF	\$1.1390
5,000 - 15,000 CCF	\$0.9160
Over 15,000 CCF	\$0.5550

³ The Special Contract is designed to “break even” or result in \$0 difference when Catoosa’s usage hits 35 million gallons a month, or 1,150,000 gallons per day which becomes the threshold for the second step rate of \$0.74 per 1,000 gallons.

⁴ Tennessee-American Water Company is provided the opportunity, through special contracts, to secure new business and pursue new prospects in instances where an approved tariffed rate does not currently exist. Absent the flexibility to negotiate special contracts and submit the same for Authority approval, Tennessee-American is faced with potential forfeiture of its ability to generate additional revenues that inure to the benefit of its ratepayers. Each special contract is evaluated on its own merits, given the circumstances existing at the time of consideration. Notwithstanding our actions here, Tennessee-American Water Company has the continuing responsibility to acknowledge when *new customer classes* emerge and to amend its existing tariff accordingly.

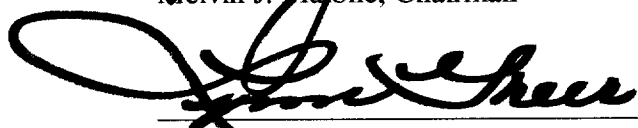
the Authority finds that approving Tennessee-American's Special Contract with Catoosa is in the best interest of Tennessee-American's ratepayers. Further, the Authority concludes that approval of the Special Contract as beginning January 1, 1999, is appropriate since the contract extends existing rates and does not result in a rate increase.


After careful consideration of the matters presented, the Directors unanimously approved the Special Contract as filed.

IT IS THEREFORE ORDERED THAT:

1. The Special Contract by and between Tennessee-American Water Company and the Catoosa Utility District is approved effective as of January 1, 1999;
2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order; and
3. Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.


Melvin J. Malone, Chairman


H. Lynn Greer, Jr., Director


Sara Kyle, Director

ATTEST:


K. David Waddell, Executive Secretary